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UNCLAS SECTION 01 OF 02 DAKAR 002245

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SENSITIVE

STATE FOR EB/IFD/ODF, EB/ESC/IEC, AF/EPS AND AF/W
AID/W FOR AFR/WA AND AFR/SD
TREASURY FOR OIASA/IDB
DOE FOR OFFICE OF POLICY AND INTERNATIONAL AFFAIRS
USDOC FOR 4510/OA/PMICHELINI, AROBINSON-MORGAN/KBOYD
USDOC FOR 3131/CS/ANESA/OIO/DHARRIS/GLITMAN/MSTAUNTON

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SUBJECT: SENEGAL'S ENERGY CRISIS WORSENS

REF: DAKAR 1746 AND PREVIOUS

DAKAR 00002245 001.2 OF 002

¶1. (SBU) SUMMARY: There seems to be no medium- or long-term strategy to Senegal's energy crisis. After a year of rancor, the relationship between GE/GTi Dakar and Senelec has further deteriorated, and both's debts are mounting. On September 16, GTi shut down because of a lack of fuel, and the company is again seeking U.S. assistance as it contemplates invoking "force majeure." Senegal's only refinery has not operated since April, and the government's decision to requisition fuel for the electric utility sparked panic buying and hording by consumers. Blackouts have become a daily occurrence; prices continue to rise at the pumps; and manufacturers are obliged to buy unsubsidized fuel to run their operations. While the new 60 MW Wartsila Bel Air plant should be commissioned by the end of September, limited fuel supplies may result in continued severe energy disruptions. END SUMMARY.

GE/GTI LURCHES FROM SHUTDOWN TO SHUTDOWN

¶2. (SBU) On September 16, GE/GTi Dakar (GTi) shut down for the second time in two weeks because it ran out of fuel. Suppliers Shell and Exxon-Mobil refused to deliver fuel because of unpaid bills. GTi is two months overdue on its payments to its petroleum suppliers while no funds are immediately forthcoming from Senelec. According to GTi, Senelec owes the independent power producer (IPP) 6 billion CFA francs (CFAF) (USD 12 million) of which 1 billion CFAF is contested by Senelec. Petroleum supplier Shell is owed 2.8 billion CFAF (USD 5.6 million) and Exxon-Mobil is owed 1.02 billion CFAF (USD 2 million).

¶3. (SBU) While Shell had buckled to pressure and continued to supply GTi with fuel, despite the overdue payments, Exxon-Mobil officials inform us that they cannot continue to supply GTi and cut off delivery to the IPP on September 11. It now appears that Shell is arguing that they have supplied the "requisitioned" 1,000 cubic meters of fuel to GTi and will supply no more at this time. However, with the recent visit to Senegal of Shell's Vice President for Africa, industry insiders expect Shell may succumb again to GOS pressure to supply both Senelec and GTi with fuel.

GOS FUEL REQUISITIONING -- WHAT DOES IT REALLY MEAN?
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¶4. (SBU) While there was much press coverage about the GOS move to "requisition" fuel supplies from Shell, Total, and Exxon-Mobil, the

power producers received no written communication from the GOS to explain the "requisitioning" process or what it means for them. It was widely reported in the press that energy companies would have 60 days to pay the fuel suppliers for their consumption. However, the fuel suppliers are importing on 30-day credit terms and will have to essentially advance payments to their traders while awaiting payment from Senegal's energy producers namely, Senelec and GTi. As one petroleum supplier observed, this GOS action counters sound business practice. Likewise, Senegal's strategy of invoking a "national security" related law to justify the arbitrary "requisitioning" of products, the process for which is not clearly spelled out, does not bode well for Senegal's overall investment climate.

¶5. (U) The requisitioning resulted in panic buying and hording, with numerous gas stations running out of diesel on September 13. Tankers with additional diesel fuel arrived on September 14, and fuel tankers are now waiting at the port. The perceived fuel shortage should, therefore, end by September 18. Moreover, the Embassy has sufficient stocks of fuel on hand for generators and other embassy services at this time. As with the frequent blackouts, fuel distribution problems have created secondary problems, such as shortages of flour for bread.

STARTS AND STOPS

¶6. (SBU) Despite being directed to pay GTi in full during a recent meeting with the Ministry of Finance, Senelec failed to abide by the directive, which according to the Director of Hydrocarbons was supposed to have been met by September 8, 2006. Instead of paying the undisputed amount of 3.4 billion CFAF (USD 6.8 million, which still would not cover the USD 7.6 million GTi owes to the petroleum suppliers), Senelec sent a notification of a wire transfer to GTi in the amount of 1 billion CFAF (USD 2 million), which GTi has yet to receive. It is understood that last week the GOS transferred 9 billion CFAF (USD 18 million) to Senelec to pay its suppliers -- an amount reported to be 31 billion CFAF (USD 62 million). Thus, GTi is likely standing behind a long line of Senelec creditors awaiting

longstanding payments. As Senelec is GTi's sole source of revenue, unlike the petroleum suppliers, GE officials indicate that they cannot continue to stop and re-start operations every few weeks due to a lack of operating capital and will soon take the decision to invoke "force majeure" and place a call on the GOS guarantee.

GE AND GTI ENGAGE THE SCOWCROFT GROUP ONCE AGAIN
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¶7. (SBU) GE officials have requested embassy assistance in bringing, once again, their concerns about Senelec and Senegal's energy situation to the attention of the Prime Minister. GE officials indicate that they are already in consultation with the Scowcroft Group and anticipate orchestrating a more vigorous campaign against Senegal than that which was conducted last year, when GE lobbied against Senegal's proposed Millennium Challenge Account (MCA) Compact.

REFINERY REMAINS CLOSED WHILE SENELEC IMPORTS OWN FUEL
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¶8. (SBU) Senegal's sole petrochemical refinery, Societe Africaine de Rafinage (SAR) not been operating since April, 2006. In an 11-hour long board meeting held on September 7, it was decided that SAR will begin importing refined product and will develop a restructuring plan before importing unrefined crude. According to a source who participated in the marathon meeting, the GOS has agreed to pay SAR 3 billion CFAF (USD 6 million) per month over the next six months to cover longstanding arrears and enable the company to import refined product.

¶9. (SBU) Under any restructuring plan, SAR's board indicated that the company would need to charge an additional 36 CFAF per liter of petroleum product that it refines if it is to consider operating in the future. According to sources, the GOS is unwilling to fully commit to the increase. Nonetheless, it was agreed that shareholders Shell and Total would work closely with Petrosen, the national petroleum parastatal, to develop a viable restructuring plan, which is to be unveiled sometime in October. It is worth

noting that SAR has lost USD 40 million each year over the past two years and owes creditors USD 240 million. SAR has receivables that still need to be collected from Senelec, Shell, Total, and the GOS. The full amount owed by the GOS to SAR for butane gas subsidies remains undefined (reftel).

¶10. (SBU) As the GOS has essentially opened the market to the importation of refined product to anyone who has the financial means to allegedly counter the influence exerted on the fuel sector by the "big three" (Shell, Total and Exxon-Mobil), this strategy could jeopardize the refinery's longer term relevance. According to Senegal's Director of Hydrocarbons, Senelec imported 20,000 tons of refined product this past weekend, which we understand is a ten-day supply. Independent petroleum suppliers Touba Oil, Elton and other lack the storage facilities to import refined product-- though we understand that Exxon-Mobil has been asked by government officials to supply storage space to their Senegalese competitors.

COMMENT

¶11. (SBU) Pursuant to our discussions with Ministry of Energy officials, there still seems to be no medium-or long-term solution to what they have termed Senegal's "dire" energy crisis where blackouts are a daily occurrence; prices continue to rise at the pumps; and large private sector manufacturers are forced to now buy unsubsidized fuel to run their operations. By all accounts, the energy crisis is being managed on a month-to-month basis. While the new 60 MW Wartsila Bel Air plant expected to be commissioned by the end of September, limited fuel supplies could put this plant in the same rudderless boat as GTi. The overall lack of vision and leadership in the energy sector is having a profound impact on Senegal's hobbling industrial sector. Senegal's biggest industries are suffering: ICS is barely operational, SONACOS is in disarray, SAR is not operational, and the U.S. IPP is threatening once again to shut down. END COMMENT.

JACOBS